

Message Text

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C O N F I D E N T I A L LONDON 01432

E.O. 11652: XGDS-1
TAGS: EFIN CY
SUBJECT: US-CYPRUS INCOME TAX CONVENTION

REF: (A) 77 LONDON 20933, (B) STATE 017622

1. FCO (CYPRUS DESK) CONFIRMED ESSENCE OF REFTEL (A) AND INDICATED NO PROBLEMS (EITHER POLITICAL OR FINANCIAL) HAD COME TO ATTENTION OF HIS OFFICE REGARDING APPLICATION OF THE 1974 UK-CYPRUS TAX CONVENTION IN TURKISH-CONTROLLED PORTION OF THE ISLAND. WHILE SITUATION IS NOT IDEAL, HMG ATTITUDE FLOWS FROM ITS DE JURE RECOGNITION OF GOC AND CONVENTION'S COVERAGE OF AT LEAST CONSIDERABLE PORTION OF CYPRUS AND ITS POPULATION.

2. IN FURTHER FOLLOW-UP PER REFTEL (B), FCO ADDED THAT GOC LAST WEEK INITIATED DISCUSSIONS LOOKING TOWARD A BILATERAL ROAD TRANSPORT AGREEMENT, MAINLY TO COVER CYPRIOT EXPORTS TO BE TRUCKED FROM ATHENS TO UK. FCO WILL NOT LET POLITICAL SITUATION IN CYPRUS IMPEDE CONCLUSION OF THIS AGREEMENT WITH THE GOC.

3. SOURCE IN INLAND REVENUE OFFICE (SUBORDINATE TO SOURCE MENTIONED REFTEL A) ALSO STATES THAT NO PRACTICAL
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PROBLEMS HAVE ARISEN IN IMPLEMENTATION OF UK-CYPRUS TAX CONVENTION BY VIRTUE OF DE FACTO DIVISION OF CYPRUS. OF POSSIBLE INTEREST TO DEPT, HOWEVER, SOURCE LISTED THREE INSTANCES WHERE INLAND REVENUE HAS RECONSIDERED PROVISIONS OF THE CONVENTION.

A) TAXES ON PENSIONS: IN PAST, HMG HAD RECEIVED INDICATIONS THAT TURK CYPRIOTS MIGHT TAX UK-ORIGIN

PENSIONS PAID TO RESIDENTS OF TURK-CONTROLLED AREAS. QUESTION AROSE WITHIN INLAND REVENUE WHETHER SUCH TAXES WOULD FALL WITHIN MEANING OF CONVENTION'S PROVISIONS FOR COUNTRY OF NATIONALITY (E.G., UK) GRANTING CREDITS AGAINST UK TAX FOR TAXES PAID TO COUNTRY OF RESIDENCE (TURKISH-CONTROLLED CYPRUS). INLAND REVENUE DECIDED TAXES LEVIED BY TURK CYPRIOT ADMINISTRATION COULD NOT TECHNICALLY FALL UNDER PROVISIONS OF CONVENTION BUT THAT ANY INDIVIDUAL CASES WOULD BE CONSIDERED "SYMPATHETICALLY" IN ACCORDANCE WITH INTENT OF CONVENTION. IN THE EVENT, HOWEVER, SOURCE SAID TURK CYPRIOTS DID NOT IMPOSE THE TAX AND INLAND REVENUE'S INFORMAL CONCLUSION HAS NEVER BEEN TESTED.

B) WHEN GOC LEVIED SPECIAL CONTRIBUTIONS ON RESIDENTS OF CYPRUS TO ASSIST DISPLACED GREEK CYPRIOT REFUGEES, INLAND REVENUE DECIDED SUCH CONTRIBUTIONS CONSTITUTED AN INCOME TAX WITHIN THE MEANING OF THE CONVENTION.

C) AT PRESENT, INLAND REVENUE IS CONSIDERING GOC LEGISLATION (WHETHER PROPOSED OR ADOPTED IS NOT CLEAR) THAT WOULD ESTABLISH TAX EXEMPTIONS TO ATTRACT INVESTMENT. INLAND REVENUE TENTATIVELY BELIEVES SUCH "INCENTIVE LEGISLATION" UNDERMINES PROVISIONS OF THE PRESENT TAX CONVENTION AND IS NOW CONSIDERING WHETHER TO SEEK RENEGOTIATION. BREWSTER

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